OFFICE OF THE SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

DEVELOPMENT FUND FOR IRAQ: THE COALITION PROVISIONAL AUTHORITY TRANSFERRED CONTROL OVER MOST OF THE REMAINING DFI FUNDS TO THE CENTRAL BANK OF IRAQ

SIGIR 12-001
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Summary of Report: SIGIR 12-001

Why SIGIR Did This Study

The Coalition Provisional Authority (CPA) was established in May 2003 to provide for the temporary governance of Iraq. United Nations Security Council Resolution 1483 created the Development Fund for Iraq (DFI) and assigned the CPA the responsibility for managing it. The DFI comprised revenues from Iraqi oil and gas sales, certain remaining Oil for Food deposits, and repatriated national assets. It was used, in part, for relief and reconstruction efforts in Iraq. DFI funds were held in accounts at the Federal Reserve Bank of New York (FRBNY) and the Central Bank of Iraq (CBI) as well as in the presidential palace vault in Baghdad. During its almost 14-month governance, the CPA had access to $20.7 billion in DFI funds for use in supporting Iraq. When the CPA was dissolved on June 28, 2004, $6.6 billion remained in unexpended DFI funds.

In response to a request from the Department of Defense (DoD) Comptroller about the status of remaining DFI funds, the Special Inspector General for Iraq Reconstruction (SIGIR) initiated this audit to determine: (1) who had authority and control over DFI funds after the CPA was dissolved, and (2) whether DFI funds shipped to Baghdad were properly controlled by the CPA and transferred to and deposited into the CBI.

What SIGIR Recommends

This report does not contain recommendations.

Management Comments and Audit Response

The Department of Defense and the Department of State provided written comments on a draft of this report. Their comments are addressed in the report where appropriate and are included as appendices to this report.

For more information, contact SIGIR Public Affairs at (703) 428-1100 or PublicAffairs@sigir.mil

October 26, 2011

DEVELOPMENT FUND FOR IRAQ: THE COALITION PROVISIONAL AUTHORITY TRANSFERRED CONTROL OVER MOST OF THE REMAINING DFI FUNDS TO THE CENTRAL BANK OF IRAQ

What SIGIR Found

When the CPA was dissolved, the Administrator transferred control over almost all of the $6.6 billion remaining in DFI funds to the CBI. This included $4.7 billion on deposit at the FRBNY, primarily held as U.S. Treasury bills, and $1.7 billion at the CBI. DoD assumed control of the remaining $217.7 million, which was in the presidential palace vault in Baghdad. In January 2012, SIGIR will report on DoD's accounting for these funds and about $2.8 billion more in DFI funds used by DoD agencies, including the U.S. Army Corps of Engineers, for reconstruction projects in Iraq.

The CPA adopted policies and procedures governing the transfer and deposit of DFI funds into the CBI. From August 2003 through June 2004, the FRBNY made 11 cash shipments to Baghdad totaling $10.2 billion in DFI funds. Four of these shipments, totaling approximately $5.8 billion, occurred within the last two months of the CPA's existence.

SIGIR reviewed these four shipments to determine if the CPA followed its established procedures in transferring the U.S. currency to the CBI. CPA documents show that a CBI representative signed for and took custody of two of the final four currency shipments at Baghdad International Airport. Receipt documentation was missing for the other two shipments, which totaled $1 billion and $2.4 billion. However, the CPA's accounting records show the apparent disposition of these funds into CBI control upon their arrival in Baghdad.

In reviewing the fund shipments, SIGIR found three instances where large amounts of U.S. currency flown to Baghdad were deposited into the CBI's DFI Baghdad account in a manner that varied from CPA's Policies and Procedures Manual:

- CPA accounting records show a June 2004 currency shipment totaling $2.4 billion, with only $766.4 million deposited into the CBI's DFI account. Based on a policy decision, the remaining $1.6 billion was earmarked for Kurdistan and documents show it was transferred to a Central Bank of Kurdistan representative at the Baghdad International Airport for flight to Erbil.
- CPA records show that $1.35 billion of $1.5 billion shipped to Baghdad in December 2003 was deposited into the CBI's DFI account. The records note that $150 million was improperly given directly to the Iraqi Minister of Finance at the airport. Officials at the Iraq Board of Supreme Audit told SIGIR that the Minister of Finance did not have authority to take the funds directly.
- SIGIR could not find any specific documentation on the arrival or deposit of an October 2003 $400 million shipment destined for the CBI's DFI account. Officials at the Iraq Board of Supreme Audit reported to SIGIR that these funds were deposited into another CBI account under control of the Minister of Finance.

SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

October 26, 2011

MEMORANDUM FOR U.S. SECRETARY OF DEFENSE

SUBJECT: Development Fund for Iraq: The Coalition Provisional Authority Transferred Control over Most of the Remaining DFI Funds to the Central Bank of Iraq (SIGIR 12-001)

We are providing this audit report for your information and use. The report discusses issues related to the Development Fund for Iraq. We performed this audit in accordance with our statutory responsibilities contained in Public Law 108-106, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978. This law provides for independent and objective audits of programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Iraq and for recommendations on related policies designed to promote economy, efficiency, and effectiveness, and to prevent and detect fraud, waste, and abuse. This audit was conducted as SIGIR Project 1112a.

The Department of Defense and Department of State provided written comments on a draft of this report, which SIGIR addressed as appropriate. Those comments are printed in their entirety in Appendices D and E.

We appreciate the courtesies extended to the SIGIR staff. For additional information on the report, please contact Glenn D. Furbish, Assistant Inspector General for Audits (Washington, D.C.), (703) 604-1388/ glenn.furbish@sigir.mil, or Jim Shafer, Principal Deputy Assistant Inspector General for Audits (Washington, D.C.), (703) 604-0894/ james.shafer@sigir.mil.

Stuart W. Bowen, Jr.
Inspector General

cc: U.S. Secretary of State
U.S. Ambassador to Iraq
Office of the Secretary of Defense (Comptroller)

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Development Fund for Iraq: The Coalition Provisional Authority Transferred Control over Most of the Remaining DFI Funds to the Central Bank of Iraq

SIGIR 12-001 **October 26, 2011**

Introduction

The Coalition Provisional Authority (CPA) was established in May 2003 to provide for the temporary governance of Iraq, following the conclusion of major combat operations in that country. United Nations Security Council Resolution 1483 established the Development Fund for Iraq (DFI) in May 2003 and assigned the CPA full responsibility for managing the fund.

The Resolution stated that DFI funds should be disbursed at the CPA's direction, in consultation with the interim Iraqi administration. It specified the DFI should be used in a transparent manner and for the following purposes: (1) the humanitarian needs of the people, (2) the economic reconstruction and repair of infrastructure, (3) the continued disarmament of Iraq, (4) the costs of civilian administration, and (5) other purposes benefiting the Iraqi people.

The DFI comprised revenues from ongoing Iraqi oil sales, unencumbered Oil for Food deposits, and repatriated national assets. During its almost 14-month life, the CPA had access to $20.7 billion in DFI funds, including $10.2 billion in U.S. currency that was flown to Baghdad.[1] Further, the CPA had $6.6 billion under its control when it completed its mission on June 28, 2004. In July 2010, SIGIR reported on the accountability and control of these and other related DFI funds.[2] In that report SIGIR concluded that weaknesses in DoD's financial and management controls left it unable to properly account for and articulate the disposition of remaining DFI funds following dissolution of the CPA.

In response to a request from the Department of Defense (DoD) Comptroller about the status of remaining DFI funds, the Special Inspector General for Iraq Reconstruction (SIGIR) initiated this audit to determine who had authority and control over DFI funds upon dissolution of the CPA and to determine whether DFI funds shipped to Baghdad were properly transferred to Iraqi control and then deposited in the Central Bank of Iraq (CBI).

Background

The CPA managed the DFI from May 2003 through June 2004. DFI funds were held at the Federal Reserve Bank of New York (FRBNY) until the CPA Administrator directed bulk

[1] During the CPA's existence, almost $12 billion in U.S. currency was flown to Baghdad, which consisted of $10.2 billion in DFI funds and $1.7 billion in vested assets. Vested assets are Iraqi funds that had been frozen in U.S. bank accounts since the first Gulf war and then later transferred to U.S. government accounts.

[2] *Development Fund for Iraq: Department of Defense Needs To Improve Financial and Management Controls*, SIGIR 10-020, 7/27/2010.

shipments of U.S. currency to Baghdad or electronic fund transfer payments to reimburse vendors for expenses incurred on completed reconstruction projects and other purposes benefitting the Iraqi people. The CPA Policies and Procedures Manual established guidance on the shipment of U.S. currency from the Federal Reserve to Baghdad and its deposit into the CBI. In addition to accounts at the FRBNY and the CBI, some DFI funds were held at the presidential palace vault in Baghdad.[3] The CPA was responsible for directing the withdrawal of funds from the CBI for transfer to the Iraqi ministries or for deposit in the palace vault.

During its administration, the CPA had access to $20.7 billion in DFI funds. It developed Excel-based spreadsheets to monitor and account for these funds. These spreadsheets documented the flow of DFI funds, similar to a single-entry checkbook-style register. Separate registers were maintained for FRBNY and CBI accounts regarding withdrawals and deposits; CPA used these records to prepare statements of cash receipts and disbursements.

The CPA directed DFI expenditures totaling about $14.1 billion, most of which went to interim Iraqi ministries to pay for salaries, pensions, and operating costs. In January 2005, SIGIR reported that the CPA either failed to establish or did not properly implement sufficient managerial, financial, and contractual controls to ensure DFI funds provided to the ministries were used in a transparent manner.[4] Table 1 provides a financial matrix showing DFI revenues and expenditures during the CPA's existence.

[3] Saddam Hussein's former presidential palace in Baghdad became the CPA's headquarters and was used to store cash needed by the CPA.
[4] *Oversight of Funds Provided to Iraqi Ministries through the National Budget Process*, SIGIR 05-004, 1/30/2005.

Table 1—DFI Revenues and Expenditures during the CPA's Existence

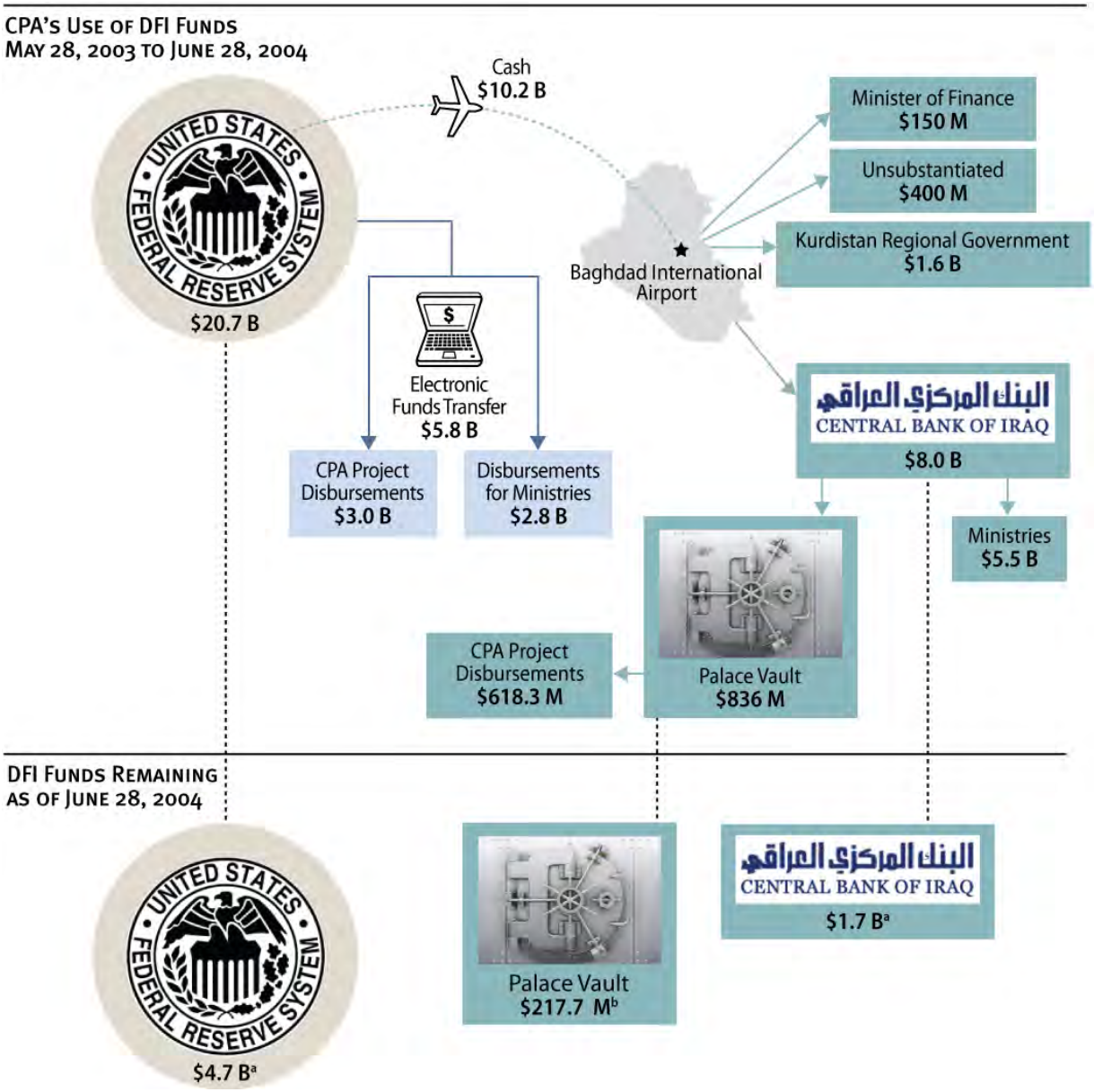
Revenues	Oil for Food	$8,100,000,000
	Proceeds from Oil Exports	$11,362,662,000
	Repatriated Funds	$1,039,805,000
	Interest from U.S. Treasury Bills	$33,495,000
	Other[1]	$170,433,000
	Total	**$20,706,395,000**
Expenditures	Disbursements for Ministries	$10,430,426,000
	Project Disbursements	$3,628,232,000
	Total	**$14,058,658,000**
Remaining Fund Balance		$6,647,737,000

Note: [1]Interest income from overnight deposits, sale of smuggler boats, donations, United Nations World Food Program, and vested assets.

Source: CPA financial matrix, as of June 28, 2004.

CPA records show that $6.6 billion remained in unexpended DFI funds on June 28, 2004. The records also show that these funds were located in three places—FRBNY, CBI, and the presidential palace vault. Figure 1 shows the use of DFI funds during the CPA's existence as well as the amount and location of remaining funds.

Figure 1—Use of DFI Funds during the CPA's Existence and the Amount and Location of Funds Remaining upon Its Dissolution



Notes:
[a] Funds under CBI control.
b Funds under DoD control.

Source: SIGIR Analysis of CPA records.

Figure 1 shows that the CPA Administrator directed cash shipments from the FRBNY to Baghdad totaling $10.2 billion—$8 billion was deposited in the CBI, $1.6 billion was provided to the Kurdistan Regional Government, and $150 million was provided directly to the Minister of Finance. Specific records were not located on the disposition of the remaining $400 million shipped to Baghdad. The Administrator also directed electronic fund transfers totaling $5.8

billion from the FRBNY to reimburse vendors for completed reconstruction projects and to support the Iraqi ministries. The CPA Administrator also directed cash transfers from the CBI in support of ministry budgets as well as to the palace vault. Lastly, Figure 1 shows the amount and location of DFI funds remaining as of June 28, 2004.

Objectives

SIGIR's objectives for this report were to determine: (1) who had authority and control over DFI funds upon dissolution of the CPA, and (2) whether DFI funds shipped to Baghdad were properly controlled by the CPA and transferred to and deposited into the CBI.

For a discussion of the audit scope and methodology, see Appendix A. For a list of acronyms used, see Appendix B. For the audit team members, see Appendix C. For Department of Defense management comments, see Appendix D. For Department of State management comments, see Appendix E. For the SIGIR mission and contact information, see Appendix F.

CPA Transferred Control of Most Remaining DFI Funds to the Central Bank of Iraq

When the CPA was dissolved on June 28, 2004, the Administrator transferred legal control over almost all of the $6.6 billion remaining in DFI funds to the CBI, under the control and authority of the Government of Iraq. This included $4.7 billion held at the FRBNY and $1.7 billion already in the CBI's DFI account in Baghdad. DoD assumed control of the remaining $217.7 million in the presidential palace vault.

Control of DFI Funds at FRBNY Transferred to the CBI

On June 28, 2004, the CPA Administrator transferred control of $4.7 billion in remaining DFI funds held at the FRBNY to the Governor, CBI. This included $4.5 billion invested in U.S. Treasury bills and $150.9 million held in several accounts. Upon our request and after gaining Iraqi governmental permission, Federal Reserve officials provided SIGIR with independent bank confirmations showing that the FRBNY balances matched those recorded in the CPA's accounting records.

The CPA Administrator instructed the FRBNY to invest excess funds in short duration U.S. Treasury bills of varying amounts. On June 28, 2004, CPA accounting records showed it had invested approximately $4.52 billion in U.S. Treasury bills with maturity dates ranging from August 2004 to December 2004. FRBNY officials confirmed that the value of these U.S. Treasury bills at maturity was $4.54 billion. CPA accounting records also show that an additional $150.9 million was held in several investment accounts within the FRBNY.

In a letter dated June 15, 2004, the CPA Administrator informed the FRBNY that his authority over the DFI would terminate on June 30, 2004, and that control of remaining funds would transfer to the Governor, CBI.[5] On July 4, 2004, the Governor identified eight CBI banking officials who were authorized to transfer or expend DFI funds. The Governor informed FRBNY officials that all withdrawals of DFI funds would require three signatures from an authorized list of CBI banking officials.

Control of DFI Funds in the CBI Baghdad Account Transferred to the CBI

CPA accounting records show that $1.7 billion remained on deposit in the CBI's DFI account in Baghdad when the CPA dissolved. The Governor of the CBI, in a letter to SIGIR dated October 9, 2011, confirmed that $1.7 billion remained in the DFI account in Baghdad on June 28, 2004. The CPA Administrator transferred control of these funds to the CBI, when the CPA dissolved.

[5] The actual transfer of sovereignty occurred on June 28, 2004. This effectively ended the CPA's control of funds on deposit at the FRBNY and CBI.

DoD Assumed Control of DFI Funds Remaining in the Presidential Palace Vault

During its existence, the CPA Administrator periodically requested that funds be withdrawn from the CBI's DFI account in Baghdad to replenish cash in the palace vault. As shown in Figure 1, a total of $836 million was deposited in the palace vault. A total of nine transfers to the palace are documented in CPA records, with five of the transfers occurring in May and June 2004. Two transfers totaling $201.6 million occurred in May 2004, and three transfers totaling $208 million occurred in June 2004.

CPA records show that about $618.3 million of the $836 million deposited in the palace vault was disbursed for projects, and $217.7 million still remained in the vault when the CPA dissolved. When the CPA ended its mission, SIGIR concluded that DoD assumed control over the remaining funds at the palace; SIGIR is not certain under what authority DoD assumed control of these funds. A DoD official told us the funds were used primarily to pay for small projects and for contractors that did not have electronic fund transfer capabilities. In February 2008, SIGIR conducted a cash count at the palace vault and determined that $24.45 million remained.[6] DoD returned these funds to the Government of Iraq in March 2008.

In commenting on a draft this report, DoD officials stated that disbursements from the vault were made on behalf of the Government of Iraq and required approval of the Minister of Finance. SIGIR is continuing to review DoD's ability to account for its use of the $217.7 million, including the process for approving payments from the vault and will issue a follow-on report in January 2012. At the same time, SIGIR will report on about $2.8 billion more in DFI funds used by DoD agencies, including the U.S. Army Corps of Engineers, for reconstruction projects provided under a separate agreement executed with Iraq in June 2004.

DoD Granted Limited Authority To Administer and Use DFI for CPA-awarded Contracts

Subsequent to the CPA's dissolution, the Minister of Finance, Interim Iraqi Government, granted DoD agencies limited authority to use DFI funds—with approval of Iraqi officials. These funds were to be used to pay expenses for ongoing contracts awarded prior to the transfer of sovereignty on June 28, 2004.

On June 1, 2004, the CPA Administrator approved a tentative plan for transitioning spending authority for the DFI to the Interim Iraqi Government. The transition plan recommended a separate sub-account be established within the FRBNY that would ensure continuing payments on contracts awarded by the CPA, prior to the final transfer of sovereignty. On June 15, 2004, the Iraqi Minister of Finance granted DoD agencies authority to monitor, confirm performance, certify, and/or make payments from the DFI on ongoing contracts awarded by the CPA or the Multi-National Force–Iraq.

[6] *Attestation to Development Fund for Iraq Cash in the Possession of the Joint Area Support Group–Central,* SIGIR 08-012, 3/13/2008.

On June 18, 2004, the CPA Administrator established a sub-account at the FRBNY entitled "Central Bank of Iraq/Development Fund for Iraq/Transition." From July 2004 through December 2004, the Minister of Finance authorized the transfer of $2.8 billion into the sub-account which enabled DoD agencies to continue paying bills on contracts that the CPA awarded prior to the transfer of sovereignty. All payments from the sub-account required approval by designated Interim Iraqi Government officials. The Minister specified that DoD agencies submit monthly reports on payments and a final report outlining all payments made under this limited spending authority. SIGIR could not locate most of these reports. We continue to review DoD's accounting for funds it used under this post-CPA authority and will issue a report on the matter in January 2012.

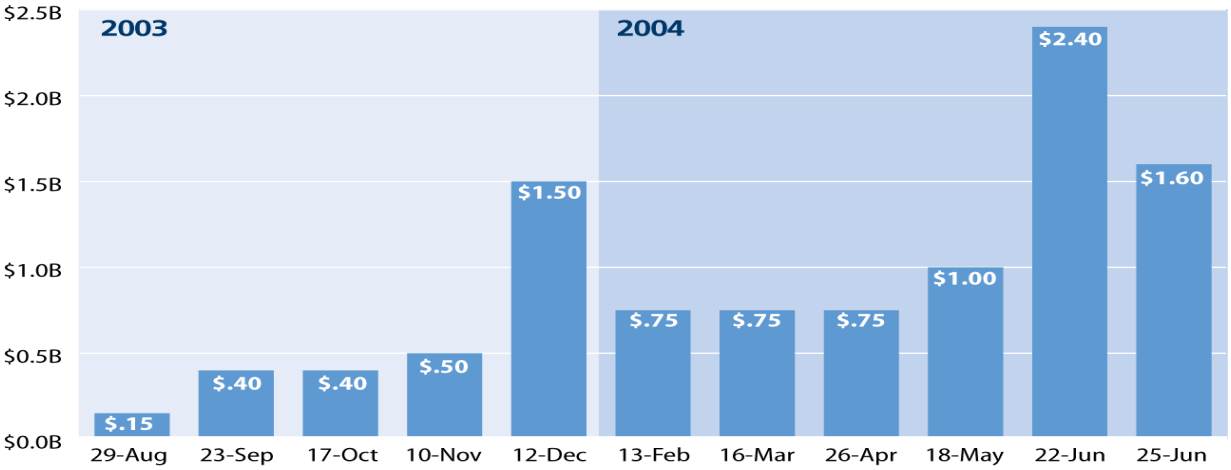
Some Documentation To Support the Transfer and Deposit of U.S. Currency Shipped to Baghdad Is Missing

While the CPA had policies and procedures governing the transfer and deposit of U.S. currency once it arrived in Baghdad, SIGIR found that some documentation required by these policies and procedures is missing. For example, certain CPA procedures specified that U.S. currency shipped to Baghdad be deposited into the CBI's DFI account in Baghdad. The FRBNY made 11 cash shipments to Baghdad totaling $10.2 billion in DFI funds after establishing the Baghdad account. SIGIR could not locate all of the receipt documentation supporting the transfers to the CBI upon the money's arrival at Baghdad International Airport. CPA's own accounting records indicate that all currency shipped to Baghdad, with three exceptions, was deposited into the DFI Baghdad account.

CPA Requested 21 U.S. Currency Shipments from the Federal Reserve

There were 21 U.S. currency shipments from the FRBNY totaling almost $12 billion. Eleven shipments involving DFI funds were made after the CBI's DFI Baghdad account was established in August 2003.[7] Figure 2 provides a listing of these 11 currency shipments totaling $10.2 billion. The CPA's authority to request currency shipments ended when it transferred sovereignty to the Interim Iraqi Government on June 28, 2004.

Figure 2—U.S. Currency Shipments of DFI Funds to Baghdad from August 30, 2003 through June 28, 2004



Source: FRBNY.

[7] The remaining 10 currency shipments included 9 shipments of vested funds and 1 shipment of DFI funds made before the CBI's DFI Baghdad account was established.

Some Documentation Supporting the Transfer and Deposit of DFI Funds Is Missing

SIGIR could not locate some CPA documents supporting the transfer and deposit of U.S. currency in the CBI once it arrived at Baghdad International Airport. Figure 2 shows that six U.S. currency shipments were made in 2004. Four of those shipments totaling approximately $5.8 billion, or almost half of all U.S. currency shipped, were made within the last two months of the CPA's existence. SIGIR reviewed the final four shipments to determine if the CPA followed its own established procedures in transferring the currency to the CBI.

The CPA Policies and Procedures Manual notes that the normal movement of cash was from Federal Reserve facilities in New Jersey to Andrews Air Force Base in Maryland and then to Baghdad via U.S. military aircraft. Federal Reserve officials stated their fiduciary responsibility ended with the money's delivery to Andrews. At that point, a DoD representative was authorized to sign for the currency on behalf of the CPA. Custody would then be transferred to a CBI representative once the air-shipped currency arrived at Baghdad International Airport. A former CPA official told us that a Shipment of Funds document (DD Form 165) was used to document transfer of custody to the CBI.

The former CPA official told SIGIR that three individuals were involved with transferring currency at Baghdad International Airport—a CPA representative, a CBI representative, and a DoD representative accompanying the shipment from the U.S. The CPA official stated that, once it arrived, all three individuals counted the currency. Upon completing the count, the CBI representative normally took custody of the currency. Both the CPA and CBI representatives signed the Shipment of Funds document, which was witnessed by two independent parties. At that point, the currency was in the CBI's actual and legal custody and was supposed to be driven to the CBI location in Baghdad and deposited into its DFI account.

SIGIR scanned an electronic database of CPA records and found documentation showing that two of the four currency shipments under review were met by a CBI representative who signed for and took custody at Baghdad International Airport. But documentation was missing for shipments totaling $1 billion and $2.4 billion. CPA accounting records show that the full amount for three of the final four shipments, or about $3.4 billion, was deposited into the CBI's DFI account in Baghdad. For the fourth shipment, records show that only $766.4 million of the $2.4 billion shipped was deposited into the CBI's DFI account in Baghdad. A Shipment of Funds document shows the remaining $1.6 billion was transferred to a Central Bank of Kurdistan representative. The CPA Administrator directed the transfer of these funds to cover budget shortfalls within the Kurdistan Regional Government. The money was flown from the Baghdad airport to Erbil, the capital of the Kurdistan Regional Government.

Not All DFI Funds Were Deposited into the CBI's Baghdad Account

CPA records show that not all of the U.S. currency the Federal Reserve shipped to Baghdad was deposited into the CBI's DFI Baghdad account. The CPA Policies and Procedures Manual states that U.S. currency shipped to Baghdad would be deposited into this account. In addition, the CPA's written requests for the Federal Reserve to ship U.S. currency stated "Withdrawal for Deposit into the DFI Baghdad Account." As noted above, CPA records show that only part of

the $2.4 billion final shipment to Baghdad was deposited into the account. SIGIR reviewed other U.S. currency shipments to Baghdad in 2003 and 2004 involving DFI funds, after establishment of the CBI's DFI Baghdad account, to determine if the funds were deposited into the account.

SIGIR found two additional instances where part or none of the currency shipped was deposited into the DFI Baghdad account.

- CPA records show that the Administrator directed the FRBNY to ship $1.5 billion to Baghdad in December 2003, for deposit into the CBI's DFI account in Baghdad. The CPA's accounting records show that $1.35 billion was deposited into the DFI Baghdad account and $150 million was improperly given to the Iraqi Minister of Finance at Baghdad International Airport. A consulting firm to the CPA addressed this transfer stating that, in the future, all cash transfers from the Federal Reserve should be deposited into the CBI, in total, and that checks should be issued for any disbursements of those funds by the CBI thereafter. Officials at the Iraq Board of Supreme Audit[8] also told SIGIR that the Minister of Finance did not have authority to take the funds directly.
- SIGIR also found a letter dated October 10, 2003, in which the CPA Administrator directed the FRBNY to ship $400 million to Baghdad for deposit into the CBI's DFI Baghdad account. SIGIR could not find any specific documentation in CPA accounting records showing that the funds arrived in Baghdad and were deposited into the CBI's DFI Baghdad account. While we do not have conclusive evidence, there is some indication from officials at the Iraq Board of Supreme Audit that these funds were deposited into another CBI account under control of the Minister of Finance.

[8] The Iraq Board of Supreme Audit is the institution that: (1) provides the public and the government with objective, accurate information about government operations and financial conditions, and (2) promotes economy and efficiency by carrying out a broad range of financial and performance audits and program evaluations.

Conclusions and Recommendations

Conclusions

SIGIR was able to account for the unexpended DFI funds remaining in DFI accounts when the CPA dissolved in June 2004. Sufficient evidence exists showing that almost all of the remaining $6.6 billion remaining was transferred to actual and legal CBI control. Most of the funds were held at the FRBNY ($4.7 billion) and the CBI ($1.7 billion). DoD assumed control over $217.7 million at the presidential palace vault, but it is unclear under what authority it did so.

The CPA did not always follow its policies and procedures governing the transfer and deposit of U.S. currency once it arrived in Baghdad. SIGIR could not locate all required documents showing that U.S. currency shipped to Baghdad was transferred to the CBI and was deposited into the DFI Baghdad account, which SIGIR finds of concern given the massive amounts of money involved. In two of the three shipments where this occurred, together totaling about $1.8 billion, there was evidence obtained from different sources to indicate how the funds apparently were handled. While SIGIR does not have conclusive evidence to support the arrival and disposition of $400 million shipped to Baghdad in October 2003, indications are that these funds were deposited into a CBI account under the Minister of Finance's control.

Recommendations

This report does not contain recommendations.

Management Comments and Audit Response

The Under Secretary of Defense (Comptroller) provided SIGIR written comments on a draft of this report. The Comptroller suggested that SIGIR should more clearly reference our July 2010 report, which concluded that weaknesses in DoD financial and management controls left it unable to properly account for DFI funds remaining after the CPA was dissolved. We added an additional sentence to the introductory section of the report to clarify this reference. SIGIR notes that at the time of our July 2010 report, neither SIGIR nor DoD had sufficient documentation available to articulate the final disposition and use of remaining DFI funds. Since that time, both parties have gathered evidence that shows that most of the $6.6 billion in remaining DFI funds was transferred to actual and legal CBI control following dissolution of the CPA.

The Comptroller provided other technical comments which SIGIR addressed in the body of the report where appropriate. For example, the Comptroller states that DoD identified and provided SIGIR with an index of items contained in 102 boxes of material that may include some of the missing currency shipment and deposit documentation. SIGIR was told that this material was scanned into an electronic records database and SIGIR had DoD officials electronically search the database using certain keywords but only recovered a few documents. The Comptroller also asserts that cash payments made from the Palace vault required approval from the Minister of Finance through a monthly reporting process. We continue to review DoD's accounting for these and other funds made available to the DoD under the post-CPA authority and will issue a report on these matters in January 2012.

The Under Secretary of State for Management generally agreed with the content of draft report and provided additional technical comments which SIGIR addressed in the body of the report where appropriate.

Appendix A—Scope and Methodology

Scope and Methodology

In June 2011, the Special Inspector General for Iraq Reconstruction (SIGIR) initiated Project 1112a to review the transfer of Development Fund for Iraq (DFI) funds during and at the end of the Coalition Provisional Authority's (CPA) existence. SIGIR's objectives for this report were to determine: (1) who had authority and control over DFI funds upon dissolution of the CPA, and (2) whether DFI funds shipped to Baghdad were properly controlled by the CPA and transferred to and deposited into the Central Bank of Iraq (CBI). This audit was performed under the authority of Public Law 108-106, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978, as amended. SIGIR conducted its review from June through September 2011 in Baghdad, Iraq and Arlington, Virginia.

To determine who had control over DFI funds upon dissolution of the CPA, SIGIR reviewed Federal Reserve Bank of New York (FRBNY) and CPA financial records. In addition, we obtained and reviewed correspondence between the CPA Administrator and the FRBNY regarding the transfer of control over the DFI upon the CPA's dissolution. SIGIR also requested FRBNY and CBI officials to independently confirm the transfer of signatory authority for the DFI accounts and the remaining balances as of June 28, 2004.

To determine whether DFI funds shipped to Iraq were properly transferred to the CBI and deposited into its DFI Baghdad account, we reviewed the CPA Policies and Procedures Manual to understand the requirements associated with documenting these actions. SIGIR obtained and reviewed FRBNY documents showing the number and amount of DFI funds requested by the CPA and shipped to Baghdad. SIGIR reviewed the final four shipments of U.S. currency to Baghdad to determine if the CPA followed established policies and procedures. These four shipments, from a total of 21 shipments made by the FRBNY, were chosen because they accounted for almost half of all the currency shipped, and all of them took place within the last two months of the CPA's existence. We interviewed former CPA officials to obtain their views on the procedures followed in transferring DFI funds to and depositing them in the CBI. In addition, we met with CBI officials in Baghdad and requested specific documents supporting the transfer of DFI funds to them and the deposit of those funds into the DFI Baghdad account. We also reviewed and obtained information from an electronic database of historical CPA records.

This audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Use of Computer-processed Data

To achieve the audit's objectives, we relied on computer-processed data provided by the FRBNY and obtained from CPA records. We did not assess the system's general controls but cross-

referenced the data with supplemental information obtained from the two sources. In performing this audit, SIGIR obtained FRBNY computer-generated data and CPA accounting records. We did not independently verify the detailed computer generated information, but because these are basic accounting systems of the involved organizations, we concluded that the computer-processed information was sufficiently reliable and the best available for purposes of our audit.

Internal Controls

In performing this audit, we reviewed FRBNY and CPA internal management and financial controls for administering the DFI. As a key part of this work, we reviewed FRBNY bank statements and CPA accounting records. We also held discussions with key officials to gain an understanding of the internal controls governing the use of DFI funds. We concluded that controls governing the process for shipping, transferring, and depositing DFI funds into the CBI were sufficiently reliable for reporting on the status of DFI. We presented the results of our review of internal controls in this report, as appropriate.

Prior Coverage

We reviewed the following SIGIR reports:

Guidance Needed for Use of Residual Iraqi Vested and Seized Asset Funds, SIGIR 11-002, 10/15/2010.

Development Fund for Iraq: Department of Defense Needs To Improve Financial and Management Controls, SIGIR 10-020, 7/27/2010.

Process for Continuing Invoice Payment for the Development Fund for Iraq Needs Attention, SIGIR 10-014, 4/27/2010.

Development Fund of Iraq: Policy Guidance Needed To Enhance Accountability of USACE-Managed Funds, SIGIR 10-006, 10/29/2009.

Attestation to Development Fund for Iraq Cash in the Possession of the Joint Area Support Group–Central, SIGIR 08-012, 3/13/2008.

Oversight of Funds Provided to Iraqi Ministries through the National Budget Process, SIGIR 05-004, 1/30/2005.

Coalition Provisional Authority Control Over Seized and Vested Assets, SIGIR 04-008, 7/30/2004.

Appendix B—Acronyms

Acronym	Description
CBI	Central Bank of Iraq
CPA	Coalition Provisional Authority
DFI	Development Fund for Iraq
DoD	Department of Defense
FRBNY	Federal Reserve Bank of New York
SIGIR	Special Inspector General for Iraq Reconstruction

Appendix C—Audit Team Members

This report was prepared and the audit conducted under the direction of Glenn D. Furbish, Assistant Inspector General for Audits, Office of the Special Inspector General for Iraq Reconstruction.

The staff members who conducted the audit and contributed to the report include:

Ziad Buhaissi

Benjamin Comfort

Dan Haigler

Glenn Knoepfle

Richard Newbold

Kevin O'Connor

Michael Welsh

Appendix D—Department of Defense Comments

UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

COMPTROLLER

OCT 21 2011

Stuart W. Bowen, Jr.
Special Inspector General for Iraq Reconstruction
400 Army Navy Drive
Arlington, VA 22202-4704

Dear Mr. Bowen:

Thank you for the opportunity to review and provide comments on the Special Inspector General for Iraq Reconstruction (SIGIR) draft report, "Development Fund for Iraq: The Coalition Provisional Authority Transferred Control Over Most Remaining Funds to the Central Bank of Iraq" (SIGIR 12-001), dated October 13, 2011. I appreciate the collaborative effort with my team and your willingness to conduct this follow-up audit to the previous report, "Development Fund for Iraq: Department of Defense Needs to Improve Financial Management Controls" (SIGIR 10-020), dated July 27, 2010.

Your independent validation of our research and discoveries further addresses the issue of Department of Defense (DoD) accountability for the Development Fund for Iraq (DFI) program funds. To provide additional clarification, I request that you consider the following points:

- The Introduction section on page 1 should more clearly reference the previous SIGIR 10-020 report. You have issued many reports but the linkage between this report and the July 2010 report is critical to a more comprehensive understanding of control and accountability. Although the report name is alluded to in a footnote on page 1, the readers will not know to compare the SIGIR 10-020 report to the SIGIR 12-001 report. This relationship clearly warrants additional clarity in the text for the readers.

- Several sections throughout the SIGIR 12-001 allude to the fact that the Government of Iraq had total control of the $6.6 billion in DFI funds on June 28, 2004. This should be clarified in several specific sections:

  - Figure 1 on page 3 should more clearly show that the balance of DFI funds on June 28, 2004, was in Central Bank of Iraq (CBI) accounts under the control and authority of the Government of Iraq. This includes all locations that are below the line in this figure.

  - Figure 1 (and other pages) also shows that $217.7 million was in the palace vault, and the "Notes" state the palace vault was under DoD control. However, it should be made clear that your team validated that DoD was accountable to Iraq's Minister of Finance for any disbursements from this vault made on behalf of the Government of Iraq. It should be made equally clear that the payment process required approval from the Minister of Finance.

- Throughout the report, the term "CBI" is consistently referred to as the recipient of the $6.6 billion on June 28, 2004. The Central Bank of Iraq, or CBI, is the name of Iraqi bank accounts at the Federal Reserve Bank of New York and in Baghdad. It should be clearly stated that control and authority transferred to the Government of Iraq rather than to its bank accounts.

The remainder of the report (pages 8-10) focuses on additional documentation needed to support specific currency transfers and deposits authorized by the Coalition Provisional Authority (CPA). I understand that much of the CPA documentation that you were unable to locate is now available but you do not currently plan to review in detail. We provided copies of Standard Forms 135, Records Transmittal and Receipt, that identify 102 boxes containing CPA records. These records cover CPA existence (2003 to 2004) and are available for review and research. Finally, our research using some of this documentation indicates that a process and controls were in place and operating both pre and post CPA, during periods of highly unusual circumstances. This context could be more clearly described.

As you know, the Government of Iraq Committee of Financial Experts and the Board of Supreme Audit are aware of our collaborative efforts and will be looking to your report to help them address their concerns. I am hopeful that the results of this independent validation will support a more productive dialogue that will preclude any misunderstandings by the Government of Iraq related to the control of DFI funds.

Thank you again for the opportunity to review and provide comments on the draft report. My point of contact in this matter is Ms. Donjette L. Gilmore. She can be reached at 703-602-0116 or donjette.gilmore@osd.mil.

Sincerely,

Robert F. Hale

Robert F. Hale

Appendix E—Department of State Comments

United States Department of State

Under Secretary of State
for Management

Washington, D.C. 20520

October 21, 2011

UNCLASSIFIED

TO: SIGIR – Glenn D. Furbish, Assistant Inspector General for Audits

FROM M – Patrick F. Kennedy

SUBJECT: Comments on the SIGIR Draft Report "Development Fund For Iraq: The Coalition Provisional Authority Transferred Control over Most of the Remaining DFI Funds to the Central Bank of Iraq" (SIGIR 12-001, October 13, 2011)

I appreciate the opportunity to review the Office of the Special Inspector General for Iraq Reconstruction's draft report. While I generally agree with the majority of the SIGIR's report, I believe there are a number of statements which are not entirely correct – as they are currently written. Therefore, I have attached my comments and edits for your review, which may help provide a more accurate account for the report.

Attachment:
Suggested Comments and Edits to the SIGIR 12-001Report

Appendix F—SIGIR Mission and Contact Information

SIGIR's Mission	Regarding the U.S. reconstruction plans, programs, and operations in Iraq, the Special Inspector General for Iraq Reconstruction provides independent and objective: • oversight and review through comprehensive audits, inspections, and investigations • advice and recommendations on policies to promote economy, efficiency, and effectiveness • deterrence of malfeasance through the prevention and detection of fraud, waste, and abuse • information and analysis to the Secretary of State, the Secretary of Defense, the Congress, and the American people through Quarterly Reports
Obtaining Copies of SIGIR Reports and Testimonies	To obtain copies of SIGIR documents at no cost, go to SIGIR's Web site (www.sigir.mil).
To Report Fraud, Waste, and Abuse in Iraq Relief and Reconstruction Programs	Help prevent fraud, waste, and abuse by reporting suspicious or illegal activities to the SIGIR Hotline: • Web: www.sigir.mil/submit_fraud.html • Phone: 703-602-4063 • Toll Free: 866-301-2003
Congressional Affairs	Hillel Weinberg Assistant Inspector General for Congressional Affairs Mail: Office of the Special Inspector General for Iraq Reconstruction 2530 Crystal Drive Arlington, VA 22202-3940 Phone: 703-428-1059 Email: hillel.weinberg@sigir.mil
Public Affairs	Deborah Horan Office of Public Affairs Mail: Office of the Special Inspector General for Iraq Reconstruction 2530 Crystal Drive Arlington, VA 22202-3940 Phone: 703-428-1217 Fax: 703-428-0817 Email: PublicAffairs@sigir.mil